NATIONAL DEVELOPMENT COUNCIL
Partners in Community Development Since 1969

Beyond Housing, Neighborhoods and Jobs: How Federal Economic Development Tools pay back the Government

A White Paper

Introduction

Over the last three decades, federal outlays for programs that support community and regional economic development have fallen by 75 percent as a share of Gross Domestic Product.[1] The federal strategy for community development and affordable housing has shifted from direct spending toward an emphasis on tax incentives and other market driven financing tools.

Federal tax incentives for community revitalization include the highly successful Low Income Housing Tax Credit (LIHTC), New Markets Tax Credit, Historic Tax Credit, and Empowerment Zone programs. As this white paper will document, these programs have succeeded in supporting community revitalization. However, there is an additional, but less well-known outcome of all of these programs: they generate a significant return on investment through the creation of federal, state, and local tax revenue.

Now, as Congress considers reforming the tax code by lowering rates and curtailing tax credits and expenditures, some have suggested that these critical programs be reduced or eliminated. Direct spending programs continue to decline and may not be restored. If the tax incentives are weakened or eliminated, communities would be left without the resources they need to meet critical community development and affordable housing needs.

In response to these developments, NDC will create a forum for community economic development practitioners from every segment of the field -- urban and rural; nonprofit and for profit; lenders, investors and intermediaries; east, west, north and south -- to share information on projects they have completed with federal economic development tools. The purpose of this platform is simple: help our industry demonstrate that the programs that make up the federal economic development toolkit help create thousands of long lasting private sector jobs. These jobs make a significant contribution to the U.S. economy and improve the quality of life in urban and rural communities across America. Moreover, the cost of the federal programs (projected loan losses and administrative costs) often is offset by the federal, state and local taxes that the employees pay. In summary, federal tax credits and loan guarantees create long-lasting private sector jobs and benefits that help to reduce the federal deficit.

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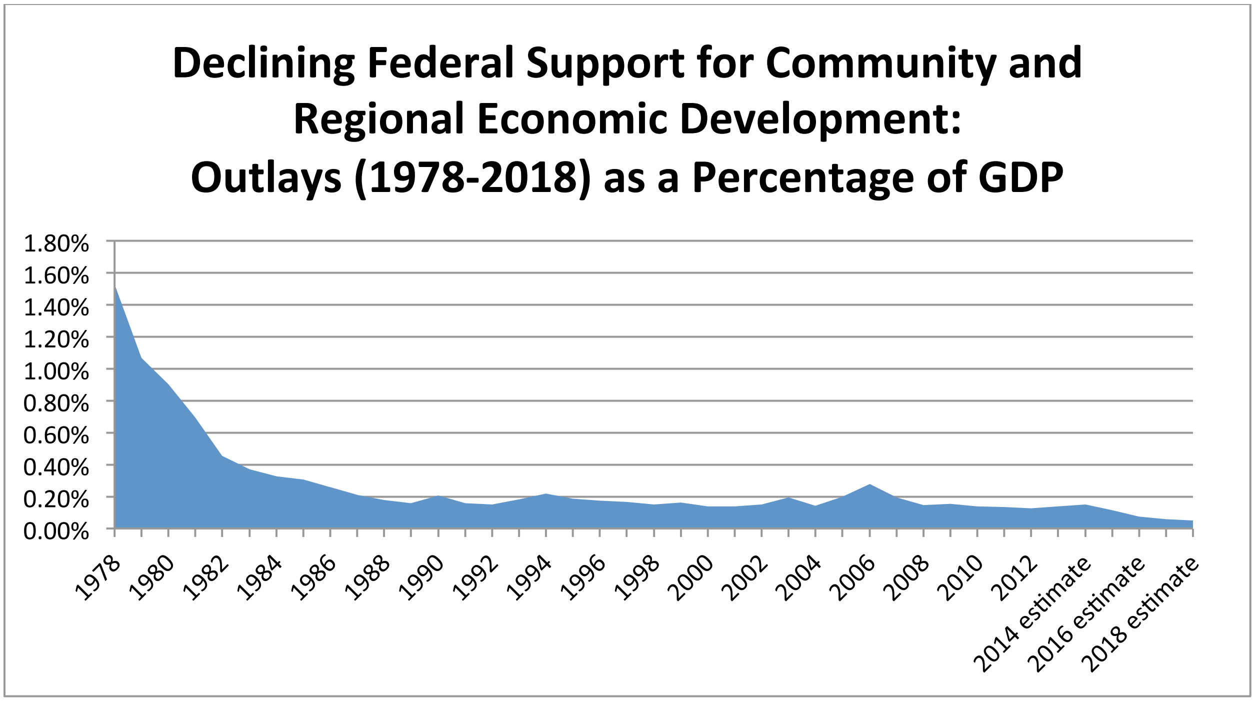
[1] United States Office of Budget Management, Historic Tables, Outlays by Function & Sub-function: 1962-2018.



[2]

For more than 40 years, NDC has worked in distressed urban and rural communities in every one of the 50 states in partnership with local and state governments and nonprofit organizations to increase the flow of capital for investment in job creation and community development. Through this work, we realized that lost in debate over budgeting and resource allocation is the important fact that **federal housing and community development programs *make a significant contribution to the U.S. economy.***

The National Development Council has created NDC ACT, *Advocating for Communities Together*, as a call to action and dialog among community and economic development organizations across the United States to share the results of their work and to demonstrate to their elected officials the significant contributions of these community development tools to the national and local economies. This forum of community development organizations across the country can build awareness of the national collective impact of these programs and advocate continued Congressional support for them.

NDC is uniquely qualified and positioned to begin this effort. In our more than four decades in this field, we have worked with Congress and successive Administrations to create innovative programs and to retool existing programs to maximize their efficacy at meeting national policy goals for small business, housing and community development.

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[2] Chart prepared by Rapoza Associates.

Overview

In this paper, NDC will examine six critical federal community development financing tools: New Markets Tax Credits, Low Income Housing Tax Credits, Small Business Administration (SBA) 7A & 504 Loan Guarantees, HUD Section 108 Loan Guarantee, and the U.S. Treasury's Community Development Financial Institutions Fund's (CDFI) Financial Assistance program. Using the federal government's own financial data, we show that the economic activity resulting from these federal tools makes a significant contribution to the US economy, provides important improvements to the quality of life in urban and rural communities across America, and often generates tax revenue that helps offset the cost of these programs.

NDC has corroborated the federal impact data by conducting a survey and analysis of its own portfolios of projects that use these federal financing tools.

While there are numerous business loan guarantee and tax credit programs, our analysis and resulting data will be focused on the areas where NDC has relevant experience: SBA 7(a) guaranteed loans; New Markets Tax Credits; Low Income Housing Tax Credits; and, CDFI Financial Assistance.

Impact of Federal Financing Tools for Community Revitalization

If these six federal financing tools are diminished or eliminated, thousands of full-time, private sector jobs that could be created by the financing of affordable housing and healthy growing small businesses will be lost. In addition to creating jobs, these tools spark community and economic revitalization by creating hundreds of thousands of units of affordable housing and by stimulating the growth engine of small business. In turn, the tax revenue and community benefits that would have been generated by these jobs will be lost.

New Markets Tax Credits (NMTC)

New Markets Tax Credit is a modest federal tax incentive designed to increase the flow of private sector capital to businesses and revitalization projects located in communities long overlooked by market forces.

Between 2009 and 2011, NMTC financed some 1,500 businesses. Financing for these business totaled $28 billion, of which NMTC provided $14 billion. The outcome:

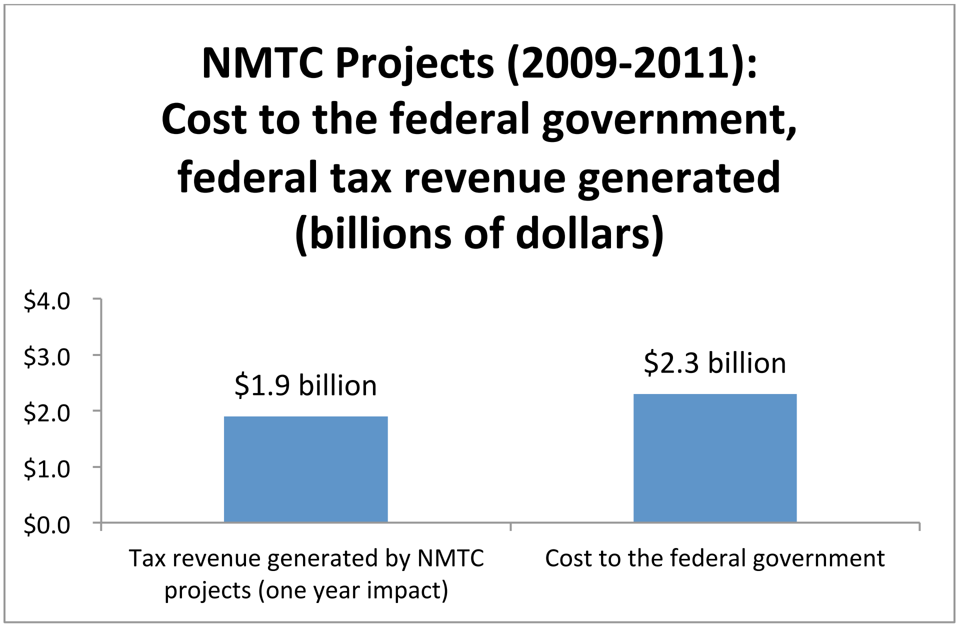
- Over 49 million square feet of real estate;
- Over 4,000 housing units;
- Over 200,000 jobs; [3]

Between 2009 and 2011, the NMTC cost the federal government roughly $2.3 billion in terms of forgone federal tax revenue. But during the same period, NMTC investments generated substantial economic activity in urban and rural communities across the country, creating 81,059 permanent jobs and 128,578 temporary 12-month construction jobs. The construction jobs generated an estimated $1.2 billion in federal tax revenue[4]. Permanent full-time jobs generated about $700 million in the first year after

[3] NMTC Transaction Data, 2003-2011 from the CDFI Fund of the United States Department of Treasury.

[4] *New Markets Tax Credit Economic Impact Report*. New Markets Tax Credit Coalition (December 2012).

project completion. That means the program generated over $1.9 billion in federal tax revenue compared to a cost of $2.3 billion[5].



NDC analyzed forty (40) NMTC projects in our portfolio and found that the 3,806 permanent jobs created from these projects will generate $92,720,724 in local, state and federal taxes over the seven year compliance period.

Dynamic patterns of small business mean that many of these jobs will continue beyond the seven years, and many of these businesses will add more jobs, thereby improving the quality of life in urban and rural communities throughout the country.

Low Income Housing Tax Credits (LIHTC)

LIHTC is the single most important federal resource available to support the development and rehabilitation of affordable housing, currently financing approximately 90 percent of all new affordable housing developed in the country.

[5] OMB. Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2013, Fiscal Year 2012, and Fiscal Year 2011

Between 2009 and 2011, LIHTC financed over 200,000 units of affordable housing. In addition to these significant improvements to the quality and quantity of rental housing stock across America, it has also generated significant economic activity including:

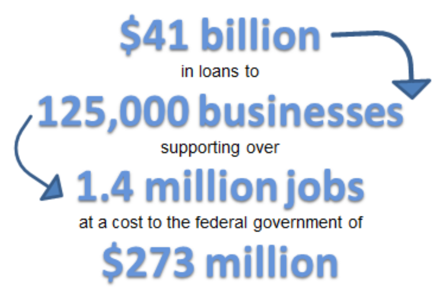
- Over 262,000 construction and permanent jobs
- Over $19 billion in other economic activity[6]

It is important to note that while LIHTC is critical for metropolitan areas, it is also the largest source of federal housing funding and is the principal tool used by rural communities to overcome barriers to affordable rental housing. Between 2009 and 2011, LIHTC was used to finance 10,911 affordable housing units in rural communities[7].

NDC's analysis of a sampling of twenty-five (25) LIHTC projects in our affordable housing affiliate, Corporate Equity Fund showed that these projects created 1,618 jobs and 1,472 units of affordable housing with total tax credits awarded of $125,893,499.

SBA 7(a) Loan Guarantee Program

The section 7(a) loan guarantee program is a major source of financing for small businesses.



Between 2009 and 2011, section 7(a) guaranteed over 130,000 loans to 125,000 businesses. The total of loans guaranteed by 7(a) exceeded $41 billion. The three year cost of the guarantee to the federal government was $273 million. SBA estimated that this financing supported 1.4 million jobs[8].

Analysis of a sampling of 1,007 jobs created by twenty five (25) loans in NDC's small business lending affiliate Grow America Fund's (GAF) portfolio shows about $84 million in tax revenue generated.

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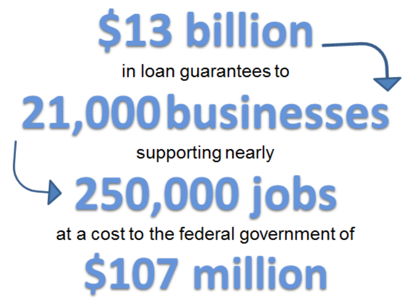
[6] National Association of Homebuilders multiplier: *Jobs: 116 jobs for every 100 units. About half of those jobs are construction jobs while the other half are operational. *Economic Activity Generated: $8.7 million in income (wages for local workers and profits for proprietors, small businesses, and corporations) for every 100 units

[7] HUD's Low-Income Housing Tax Credit Database. Data output is in either easy-to-read HTML tables, or a comma-delimited text file suitable for further analysis with spreadsheet, database, or statistical software.

[8] SBA FY2013 Congressional Budget Justification.

SBA Section 504 Guarantee Program



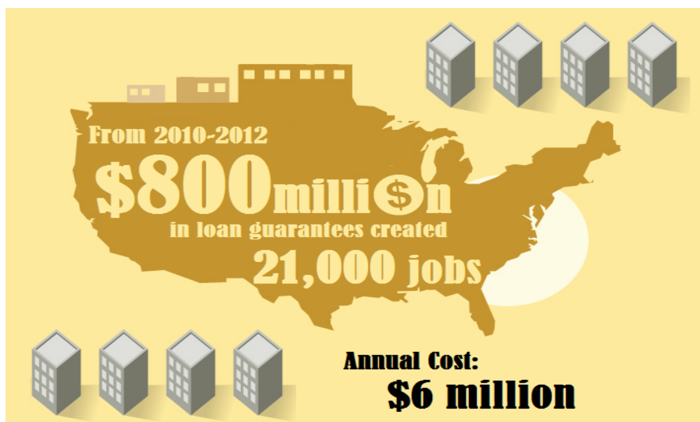
Section 504 of the Small Business Act of 1958 helps businesses grow by acquiring and improving major fixed assets, such as owner-occupied real estate or equipment. The program helps eligible businesses that face difficulties in qualifying for credit without SBA participation.

Between 2009 and 2011 Section 504 loan guarantees went to over 21,000 businesses for loan guarantees totaling $13 billion and supporting some 250,000 jobs[9].

The SBA 7(a) loan program and the 504 loan program are two flagship SBA efforts to expand access to capital, encouraging banks and other lenders to help entrepreneurs start and grow their businesses.

HUD Section 108 Loan Guarantee Program

Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and other large scale revitalization projects.



Between 2010 and 2012, Section 108 guaranteed some $800 million in loans at an annual cost of $6 million. It is estimated that these loan guarantees created 21,000 jobs in CDBG eligible communities.

Currently there are 667 outstanding Section 108 loans in communities across the country, with a total loan balance of $2.2 billion[10]. Up to three-quarters of section 108 recipients that participated in a recent HUD study[11] said that projects would not have happened had the Section 108 financing been unavailable. Those borrowers who leveraged other funding sources (private, federal, State, and local) with Section 108 funds, on average, secured $4.62 of additional funds for every $1 of Section 108 funding. No other community and economic development funding sources are able to duplicate the financing Section 108 provides.

CDFI Fund Program

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[9] SBA FY2013 Congressional Budget Justification.

[10] HUD's FY 2013 Budget request - Congressional justification.

[11] *Study of HUD's Section 108 Loan Guarantee Program.* U.S. Department of Housing and Urban Development, September 2012.

The CDFI Fund's Financial Assistance program provides CDFIs with grants that they in turn use for financial assistance to businesses and economic revitalization projects serving eligible communities and populations.

For Fiscal Year 2011 and 2012, CDFI Fund program awardees:

- Originated $2,527,117,325 in loans and investments;
- Financed over 42,000 units of affordable housing; and
- Created over 50,000 jobs.[12]

Annual CDFI FA awards for the two year period averaged $145 million. On average, with every $1 awarded by the CDFI Fund a CDFI leverages an additional $9 in private and/or non-federal public funding. The CDFI Fund is a critical source of patient capital for CDFIs because of this leveraging power and yet less than 10 percent of all CDFI capital is provided by the CDFI Fund.

Conclusion

These six federal financing tools have demonstrated their effectiveness and unique contribution to both the local and national economies. If they are eliminated or curtailed, we will lose the jobs they would have created, and lose them at a time when the national economy has yet to reach the pre-recession level of job creation. In turn, the tax revenue and community benefits that would have been generated by these jobs will be lost. These programs are vital to sustaining and growing communities across the country that have suffered decades of neglect or where affordable housing has become scarce for long-time residents. NDC ACT, *Advocating for Communities Together*, will build awareness of the national collective impact by sharing project information from community and economic development organizations across the United States. The results of their work will demonstrate to their elected officials the significant contributions of these community development tools to the national and local economies.

After decades of cuts to the federal economic development portfolio, these six financing programs are among the few remaining community development tools that allow mission-driven organizations to create decent, safe, affordable housing, finance child and healthcare facilities, create permanent jobs; and as important, generates tax revenue. With the economy still struggling, Congress should prioritize these proven effective and economical tools.

For more Information

Visit NDC ACT online at:

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[12] CDFI Fund FY 2011-FY 2012 Agency Financial Reports.

http://www.nationaldevelopmentcouncil.org/index.php/site/overview_content/category/work_with_ndc

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Appendices

Appendix A: About the programs

New Markets Tax Credits (NMTC)

In December, 2000, the Community Renewal Tax Relief Act (P.L. 106-554) was signed into law, authorizing the New Markets Tax Credit (NMTC). The NMTC provides capital to businesses in economically distressed communities where access to credit is extremely limited. The NMTC Program uses federal tax incentives to attract private capital into operating businesses and real estate in urban and rural low-income communities (LIC).

Intermediary organizations designated by the U.S. Treasury's Community Development Financial Institutions Fund (CDFI Fund) called Community Development Entities (CDEs)—which can be nonprofit financial institutions, banks, investment groups—receive allocations of tax credit authority. CDEs recruit investors for the 39 percent tax credit and then use the funds secured to support businesses and commercial real estate development in low income communities. The shallow subsidy is intended to make marginal projects financially feasible. In exchange for cash, investors receive tax credits over a seven year period.

All NMTC investments must be made in a business operating in a low income community defined under NMTC as a census tract where the individual poverty rate is at or above 20 percent or the median family income is at or below 80 percent of the area median income, or benefitting one or more targeted populations.

Between 2003 and 2011, the total investment in NMTC financed businesses came to $55 billion, of which nearly $27 billion was NMTC capital, with the balance coming from other sources[13].

Federal Low Income Housing Tax Credit (LIHTC) Program:

The LIHTC was originally authorized in the 1986 Tax Reform Act (Internal Revenue Code Section 42) and was made permanent in the Omnibus Budget Reconciliation Act of 1993. The Program was established to create market incentives for the acquisition and development or rehabilitation of affordable rental housing.

LIHTC's are allocated to states, and state housing credit agencies (HCAs) award the 9 percent and 4 percent federal tax credits to developers, who then use the tax credits to raise equity financing for affordable housing.

[13] CDFI Fund NMTC Transaction Data – 2003-2011.

The equity capital generated from the tax credits lowers the debt burden on LIHTC properties, making it easier for owners to offer affordable rents; while investors use the tax credit to reduce their federal tax liability.

Projects eligible for housing tax credits must meet low-income occupancy threshold requirements. Project owners may elect one of the following two thresholds:

1. 20-50 Rule: At least 20 percent of the units must be rent restricted and occupied by households with incomes at or below 50 percent of the HUD-determined area median income (adjusted for household size).
2. 40-60 Rule: At least 40 percent of the units must be rent restricted and occupied by households with incomes at or below 60 percent of the HUD-determined area median income (adjusted for household size).

Small Business Administration 7(a) Loan Guarantee Program

The Section 7(a) loan guarantee program was authorized by the Small Business Act of 1958, as amended, and is a major source of financing for small businesses. The program provides federally guaranteed loans to small businesses in need of flexible underwriting terms, extended loan terms, and low down payments, benefiting both borrowers and lenders.

Borrowers benefit from loan terms that accommodate their ability to repay, meet their credit needs, and match the useful life of assets financed. Loans can be used for the acquisition, rehabilitation, and expansion of land, buildings, equipment, and fixtures; leasehold improvements; working capital; refinancing existing debt; seasonal lines of credit; and inventory purchases.

Lenders benefit from the federal guarantee, which in the event of loan defaults, requires the SBA to pay off a portion of outstanding balances. The guarantee offsets some of the risk lenders face when lending to borrowers who may not meet conventional underwriting terms.

For standard 7(a) loans, the guarantee now stands at 85 percent of loans up to $150,000 and 75 percent of loans greater than $150,000. The maximum loan is $5 million. If made for working capital, loans typically are limited to seven years. When used for fixed assets other than real estate, such as machinery and equipment, loans are limited to the useful life of the assets. Loans made for acquisition and improvement of land and buildings are limited to 25 years.

Because the program does not target by geography, population or type of business, the terrain is not as challenging as other programs; nonetheless the SBA 7(a) performs an important function in sustaining the flow of capital to small business in low income community. Organizations such as NDC have put 7(a) to good use in low income communities. [14]

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[14] OCC Community Affairs, 2013 Fact Sheet on SBA 7(a)

Small Business Administration Section 504 Guarantee Program

Section 504 of the Small Business Act of 1958 helps businesses grow by acquiring and improving major fixed assets, such as owner-occupied real estate or equipment. The program helps businesses with eligible loan requests that face difficulties in qualifying for credit without SBA participation. Like Section 7(a), Section 504 does not target economically distressed communities or populations. However, it does provide an important source of capital to small business enterprises and is a tool for organizations like NDC for targeted economic development.

This highly successful loan program is offered through a partnership program between a specialized SBA Certified Development Company (CDC) and a participating private lender (most often a bank) to promote economic development and create and retain jobs. The program helps participating lenders provide small businesses with long-term financing to acquire and improve major fixed assets, such as owner-occupied commercial real estate and heavy machinery and also reduces the bank's risk exposure. Each partner, the CDC and bank, makes a loan to a qualifying small business. Typically the lender's loan is secured by a first lien covering 50 percent of a project's cost. The CDC's loan is secured by a second lien for up to 40 percent of the project's cost. The CDC loan is also backed by a 100 percent SBA-guaranteed debenture.

Participation in the SBA 504 program is attractive to banks because it can help them draw and retain customers, manage risk and liquidity, and generate additional cross-selling opportunities for bank products. Through the program, banks can offer long-term financing to small business customers who otherwise might not obtain the necessary financing to grow. The low down payment and fixed interest rate are particularly attractive to healthy, growing businesses. The SBA 504 program assists healthy, expanding businesses by giving them access to financing backed with as little as 10 percent owner equity, longer term financing with a fixed rate of interest. The program helps bolster public/private partnerships with banks and serve small business borrowers that need financing that may not meet conventional underwriting criteria.

HUD Section 108 Loan Guarantee Program

Enacted by Congress in 1974 as part of the Housing and Community Development Act of 1974, the HUD Section 108 program is an authority under the Community Development Block Grant program is designed to stretch CDBG entitlement resources. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and other large scale revitalization projects. This makes it one of the most effective and important public investment tools in HUD's arsenal to states and local governments. It allows cities, counties and states to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Section 108 loans are not risk-free, however; local governments borrowing funds guaranteed by Section 108 must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.

Community Development Financial Institutions (CDFI) Fund Program

The Community Development Financial Institutions (CDFI) Fund was established in the Riegle Community Development Banking Act of 1994 to provide financial products and services to low income communities and populations.   Unlike the other resources discussed here, this is a direct grant program to community development financial intermediaries known as certified Community Development Financial Institutions. CDFIs employ Financial Assistance grants, along with other sources of capital, to provide technical and financial assistance to businesses and projects serving eligible communities and populations. Financial institutions that have been certified as CDFIs include regulated community development banks and credit unions as well as nonprofit loan funds, community development corporations, and venture capital funds. More than 999 CDFIs, including 72 Native CDFIs, have been certified to work in low-wealth communities across the country.

Appendix B – Project Examples

Heritage Woods Supportive Living Facility in Freeport, Illinois: Low Income Housing Tax Credits

Heritage Woods of Freeport was developed under the State of Illinois' Supportive Living Facility (SLF) program. SLF, administered by the Department of Healthcare and Human Service, was developed as an alternative to nursing home care for low-income older persons and persons with disabilities under Medicaid.

NDC Corporate Equity Fund invested $6.7 million in Low Income Housing Tax Credit (LIHTC) equity into the $12 million new construction. The project is a 76-unit supportive living facility that consists of 37 studios and 39 one-bedroom apartments. Designed to meet the needs of seniors that require supportive care, Heritage Woods Freeport will provide a comprehensive array of housing, personal and health related support services.

12th Avenue Arts Building, Seattle, Washington: LIHTCs, NMTCs, HUD Section 108, Tax Exempt Bonds

The building, will provide theater space for neighborhood arts programs, 88 low-income apartments, community office and retail space as well as 111 underground parking stalls for the Seattle police department.

The private and public sources of funding for this project included the City of Seattle, State of Washington, National Development Council Corporate Equity Fund (CEF), National Development Council HEDC New Markets (NMTC) and KeyBank. The affordable housing component was financed with a combination of tax exempt bonds and loans from the City of Seattle and the State of Washington. Capitol Hill Housing raised $4.1 million in donations for 12th Avenue Arts, and expects to bring in another $500,000. The capital campaign combined with New Markets Tax Credit Equity, a HUD Section 108 Loan from the City of Seattle and a conventional bank loan were used to finance the art space as well as the office and retail portion.

Spartanburg Community College, Spartanburg, SC: New Markets Tax Credits

New Markets Tax Credit equity of $9 million in Qualified Equity Investment from the National Development Council's CDE, HEDC New Markets, Inc., was used to fill a financing gap for renovations to the historic once vacant Evans Building in downtown Spartanburg. The total project cost was $15.5 million project. This was combined with other financing and a NMTC allocation from Wells Fargo Bank, resulting in the creation of 50 construction jobs and 38 permanent jobs.

The rehabilitated facility will provide a full suite of certificate and associate degree programs to prepare students for career-path employment. The new state-of-the-art facility includes classrooms, computer labs, science labs, a 5,000 sq. ft. auditorium and 7,150 sq. ft. gymnasium. The Campus also houses a 13,000 sq. ft. one-stop career center that offers comprehensive workforce development and job placement programs targeted to low income community residents. The project is a critical component of an ambitious County-wide initiative to significantly increase post-secondary education of underserved residents and help prepare them for high-growth, high-demand jobs that will position the region for future economic growth.

Stadium Thriftway, Tacoma, Washington: SBA 7(a) Small Business Lending

Stadium Thriftway is an independent retail grocery store located in a low-income neighborhood within North Tacoma where the poverty rate is 22.3 percent, 79 percent of the population is at 60 percent of median-family income or lower, and the unemployment rate was 10 percent higher than the national average. GAF made a loan to expand the store from 14,000 square feet to 22, 000 square feet. The $2 million loan was for tenant improvements and new fixtures and equipment for the enlarged space. Thirty jobs were preserved with another ten to be created.

Appendix C – Authors

Sam Beard, Chairman, National Development Council

Sam Beard has been Chairman of the National Development Council (NDC) since 1985, following 16 years as NDC President. He began his work in this field as a Staff Associate to Senator Robert Kennedy in his seminal community development work in Brooklyn's Bedford Stuyvesant neighborhood, and went on to found NDC to address the problems of poverty and economic inequity in urban and rural communities around the county. Under his leadership, NDC worked with four Presidential administrations to create and refine powerful federal community and economic development tools still in use today. At the same time NDC grew to become one of the leading national community development organizations in the U.S. He is also the founder of The Jefferson Awards for Public Service, recognizing and honoring those whose public service efforts have had a significant and far-reaching impact. Later working with Presidents Bush, Clinton and Bush, he helped create a grassroots presidential system for volunteer service with The President's Volunteer Service Award. A graduate of Yale University, Beard earned an M.A. degree in history at Columbia University in Wilmington, Delaware.

Robert W. Davenport, President, National Development Council

Bob Davenport has served as President of the National Development Council (NDC) since 1986. Davenport leads nearly 80 professionals who are working in 100-plus communities to provide technical assistance to municipalities, creating small business jobs and developing affordable housing, real estate and community facilities projects. In his role as President, Davenport serves as Chairman of the Grow America Fund, Inc. (GAF), NDC's Small Business Lending Company and CDFI. He also serves as Chairman of the NDC Housing and Economic Development Corporation (HEDC), which finances and develops affordable housing and a variety of other community and economic development projects. Prior to NDC, Davenport served as Vice President and New York Banking Division Credit Officer at Citibank in New York City where he managed a $1.3 billion loan portfolio covering 230 retail branches and 90 employees. Davenport currently serves on the Board and Executive Committee of the New Markets Tax Credit Coalition and has led NDC in receiving over $700 million in NMTC Allocation and over $5 million in CDFI Financial Assistance awards. Davenport, earned a B.A. degree in History and Economics from Stanford University in 1967. He earned his M.B.A. in Finance from Columbia Business School in 1971. Davenport currently resides in the Flatiron District of New York City, is an avid patron of the arts and gourmet cook.